

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 AGRE-00 DOE-11 SOE-02
IGA-02 L-03 /114 W
-----023887 281711Z /40

R 281520Z DEC 77
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 4566
INFO AMEMBASSY PARIS

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USOECD

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, ELAB, ETRD, AU
SUBJECT: YEAR-END REVISION OF ECONOMIC FORECASTS

REF: VIENNA 9439

1. SUMMARY. YEAREND FORECASTS BY BOTH ECONOMIC RESEARCH

INSTITUTES REVISED GROWTH ESTIMATES DOWNWARD DUE PRIMARILY TO MORE PESSIMISTIC APPRAISAL OF EXTERNAL ECONOMIC ACTIVITY. BOTH INSTITUTES NOW PUT 1977 GNP GROWTH AT CA. 3.5 PERCENT, WHILE THE FORD INSTITUTE HAS LOWERED ITS 1978 FORECAST TO 2 PERCENT. THE ECONOMIC SLOWDOWN, LOWER RATES OF INFLA-

TION ABROAD AND THE UPWARD TREND IN VALUE OF THE SCHILLING DAMPENED DOMESTIC PRICE PRESSURES IN 1977. DESPITE TAX INCREASES AND PROBABLE UPWARD ADJUSTMENTS IN SOME OFFICIALLY CONTROLLED PRICES IN 1978 (RADIO, TV, AND ELECTRIC
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RATES RAILROAD FARES AND POSSIBLY SOME STAPLES) INFLATION NEXT YEAR IS EXPECTED TO DECLINE FOR 5.5 PERCENT TO 4.5 PERCENT. THIS SHOULD BE FACILITATED BY A TIGHT WAGE POLICY (WHICH ALREADY HAS BEEN REFLECTED IN SEVERAL SETTLEMENTS AT ROUGHLY THE CURRENT RATE OF INFLATION) AS WELL AS BY A PROJECTED STAG-

NATION IN PRIVATE CONSUMPTION AND IMPORTS. PROJECTIONS OF

A 2.5 PERCENT UNEMPLOYMENT RATE IN 1978 (AFTER 1.8 PERCENT IN 1977) REMAIN UNCHANGED. END SUMMARY.

2. THE AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH (AIER) AND THE INSTITUTE FOR ADVANCED STUDIES (FORD INSTITUTE-FI) RECENTLY CAME OUT WITH THEIR REVISED, YEAREND FORECASTS. THE ESTIMATES OF BOTH INSTITUTES ARE BASED ON THE FOLLOWING PRINCIPAL ASSUMPTIONS:

(A) THERE WILL BE NO INTERNATIONAL RECESSION AS SEVERE AS 1974/75, BUT EXTERNAL STIMULUS TO THE AUSTRIAN ECONOMY WILL BE MINIMAL; AND (B) POLICY MEASURES TAKEN THUS FAR TO STABILIZE FISCAL AND PAYMENTS DEFICITS WILL BE INSUFFICIENT TO ACHIEVE GOALS AND WILL HAVE TO BE SUPPLEMENTED BY ADDITIONAL POLICY INITIATIVES. THE LATEST 1977 FORECASTS FOLLOW; LAST SEPTEMBER'S PROJECTIONS ARE ADDED FOR COMPARISON; AND ALL CHANGES ARE IN PERCENT UNLESS OTHERWISE INDICATED.

	AIER		FORD INSTITUTE	
	FORECAST OF		FORECAST OF	
	DEC	SEP	DEC	SEP
REAL GNP 1977	3.5	4.0	3.6	3.7
REAL GNP (EXCLUDING AGRICULTURE)	4	4.5	N.A.	N.A.
NOMINAL GNP AS BIL., CURRENT PRICES)	795.8	801.0	795.1	803.6

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GNP DEFLATOR	5.5	6	5.3	6.3
PRIVATE CONSUMPTION (REAL)	6.5	6.5	6.0	5.9
GROSS ASSET FORMATION (REAL)	7.5	6.5	7.7	6.4
OF WHICH EQUIPMENT (REAL)	10.5	8	11.4	7.9
COMMODITY EXPORTS (REAL)	4	4	4.5	4.7
EXPORTS OF GOODS & SERVICES (REAL)	3.5	3	4.2	3.7
COMMODITY IMPORTS (REAL)	10	9.5	10.5	9.5
IMPORTS OF GOODS & SERVICES (REAL)	7.75	9	8.9	8.9
EXPORTS PRICES	3.5	4.5	3.0	5.5
IMPORT PRICES	3.5	4.5	3.5	4.7
CONSUMER PRICES	5.5	5.75	5.6	5.9
EMPLOYMENT GROWTH	1.9	2.0	1.9	1.8
UNEMPLOYMENT RATE	1.8	1.8	1.9	1.9

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COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 AGRE-00 DOE-11 SOE-02
IGA-02 L-03 /114 W
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R 281520Z DEC 77
FM AMEMBASSY VIENNA
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3. 1978 FORECASTS FOLLOW:

AIER	FORD INSTITUTE
FORECAST OS	FORECAST OF
DEC SEP	DEC SEP
1977 1977	1977 1977

REAL GNP 1978	1.5	1.5	2.0	2.6
REAL GNP				
(EXCLUDING AGRICULTURE)	1.5	1.5	N.A.	N.A.
NOMINAL GNP (AS BIL.				
CURRENT PRICES)	844.4	851.8	850.0	872.9
GNP DEFLATOR	4.5	5	4.8	5.9
PRIVATE CONSUMPTION				
(REAL)	1	2	2.0	3.6
GROSS ASSET FORMATION				
(REAL)	1.5	1.5	3.2	4.0
OF WHICH EQUIPMENT				
(REAL)	0	0	2.1	3.7

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COMMODITY EXPORTS

(REAL)	4	3	4.7	4.5
EXPORTS OF GOODS &				
SERVICES (REAL)	3.75	2.5	3.9	4.2
COMMODITY IMPORTS				
(REAL)	-1	-1	0.7	2.3
IMPORTS OF GOODS &				
SERVICES (REAL)	1	0	1.3	2.7
EXPORT PRICES	3	3	3.0	5.1
IMPORT PRICES	3	3	3.1	4.6
CONSUMER PRICES	4.5	5	5.2	5.7
EMPLOYMENT	0	0	0.0	0.3
UNEMPLOYMENT RATE				
(PERCENT)	2.5	2.5	2.5	2.5

4. AIER ALSO REVISED ITS ESTIMATES OF BALANCE OF PAYMENTS
DEVELOPMENT IN 1977 AND 1978. FIGURES ARE IN AS BILLION.

1977	1978
AIER	AIER
FORECAST OF	FORECAST OF
DEC SEP	DEC SEP
1977 1977	1977 1977

TRADE DEFICIT (INCLUDING				
GOLD & TRANSIT TRAFFIC)	-68.7	-68.1	-61.7	-62.1
OF WHICH COMMODITY				
TRADE DEFICIT	-71.3	-70.9	-64.5	-65.7
SERVICES BALANCE	PLUS25.7	PLUS23.0	PLUS24.1	PLUS20.8
BALANCE OF UNILATERAL				
TRANSFERS	-1.0	-1.0	-1.0	-1.0
BALANCE OF CURRENT				
TRANSACTIONS	-44.0	-46.1	-38.6	-42.3
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LONG TERM CAPTIAL FLOWS PLUS10.0 PLUS12.0 PLUS10.6 PLUS15.0

ERORS & OMISSIONS	PLUS16.0	PLUS12.0	PLUS16.0	PLUS12.0
CHANGE IN RESERVES				
(EXCLUDING CHANGES IN				
FOREIGN CURRENCY VALUES)	-18.0	-22.1	-12.0	-15.3

THE SIGNIFICANCE OF THE SERVICES ESTIMATE, WHICH CONSISTS
MAINLY OF TOURIST SURPLUS, SHOULD NOT BE OVERRATED BECAUSE
ESTIMATES OF TOURIST EXPENDITURES AND EXPENDITURES IN
1978 ARE ESTIMATED TO RISE BY 9 AND 16 PERCENT OVER 1977
LEVELS.

5. THE FACT THAT IMPORT GROWTH HAS BEEN SIGNIFICANTLY

UNDERESTIMATED IN PAST FORECASTS PROMPTED AIER TO ANALYZE CAUSES OF THE CONTINUED IMPORT BOOM MORE CLOSELY. WHILE THE ANALYSIS IS NOT YET COMPLETE, TRENDS HAVE EMERGED FOR MAJOR COMMODITY GROUPS AND WERE USED AS BASIS IN IMPORT FORECASTS FOR 1977 AND 1978. FOLLOWING FIGURES REFLECT ESTIMATED PERCENT CHANGES OF NOMINAL IMPORT VALUES IN 1977 (FIRST FIGURE) AND 1978: FOOD AND BEVERAGES PLUS 14, PLUS 3; RAW MATERIALS PLUS 10, MINUS 2; FUELS MINUS 7, PLUS 14; SEMI-FINISHED AND FINISHED GOODS PLUS, ZERO; PASSENGER CARS PLUS 16, MINUS 25; MACHINERY AND VEHICLES (OTHER THAN PASSENGER CARS) PLUS 20, PLUS 7; FINISHED CONSUMER GOODS PLUS 20, PLUS 4; TOTAL IMPORTS PLUS 14, PLUS 2. PROJECTED 1977 DECLINE IN IMPORTS OF PASSENGER CARS REFLECTS IMPACT OF INCREASED VALUE ADDED TAX ON AUTOMOBILES. WITH REGARD TO ENERGY, AIER PREDICTS A 6.5 PERCENT DECLINE IN 1977 ENERGY IMPORTS BECAUSE OF FAVORABLE CONDITIONS FOR DOMESTIC ELECTRIC POWER PRODUCTION, WARMER WEATHER, AND NEARLY CONSTANT PRICES FOR PETROLEUM, COAL AND COKE. IN 1977, ENERGY CONSUMPTION IS ESTIMATED TO REACH 1976 LEVEL. IN ADDITION, PETROLEUM IMPORTS WILL BE INCREASED BY 5 PERCENT

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OVER 1977 IN ORDER TO BUILD UP STRATEGIC RESERVES. IMPORT PRICES FOR PETROLEUM AND PETROLEUM PRODUCTS ARE ESTIMATED TO RISE BY AN ANNUAL AVERAGE OF 5 PERCENT. IMPORTS OF NUCLEAR FUEL FOR THE ZWENTENDORF PLANT ARE ESTIMATED AT AS 300 MILLION. TRINKA

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Event:
Disposition History: n/a
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